

WAINOCO OIL AND CHEMICALS LIMITED

312 Fourth Avenue S.W.,
Calgary 1, Alberta

**NOTICE OF ANNUAL AND SPECIAL GENERAL
MEETING OF SHAREHOLDERS**

NOTICE IS HEREBY GIVEN that the Annual and a Special General Meeting of Shareholders of Wainoco Oil and Chemicals Limited (hereinafter called the "Company") will be held in the Algonquin Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario, Canada, on Tuesday, the 20th day of April, 1971, at the hour of eleven o'clock in the forenoon (Toronto Time) for the following purposes:

1. To receive the Annual Report, the Financial Statements and the Auditors' Report thereon for the year ended December 31, 1970;
2. To elect Directors for the ensuing year;
3. To appoint Auditors and authorize the Directors to fix their remuneration;
4. To consider and, if thought advisable, to sanction and confirm, with or without variation, By-Law No. 22 of the Company being a by-law relating to the Indemnification of Directors and Officers of the Company;
5. To consider and, if thought advisable, to sanction and confirm, with or without variation so that the same may become a Special Resolution, a resolution passed by the Directors on February 18, 1971, relating to an application to the Minister of Financial and Commercial Affairs for an amendment to the Articles of Incorporation of the Company so that meetings of shareholders may also be held at certain locations outside of Ontario;
6. To transact such further and other business as may properly come before the meeting or any adjournment or adjournments thereof.

Shareholders who are unable to be present at the meeting are requested to sign and return in the envelope provided for that purpose, the enclosed form of Instrument Appointing a Proxy for use at the Meeting.

Dated at Calgary, Alberta, this 30th day of March, 1971.

By Order of the Board of Directors.

"Robert L. Doddridge"
Secretary-Treasurer

WAINOCO OIL AND CHEMICALS LIMITED

INFORMATION CIRCULAR

This Information Circular is furnished in connection with the solicitation of proxies for the Annual and Special General Meeting of Shareholders of the Company to be held on Tuesday, the 20th day of April, 1971, at the hour of eleven o'clock in the forenoon, (Toronto Time) and at any adjournment or adjournments thereof, for the purposes set out in the accompanying Notice of Meeting. It is expected that the solicitation will be primarily by mail, but proxies may also be solicited personally or by telephone by regular employees of the Company. The cost of any such solicitation will be borne by the Company.

Voting of Proxies

The enclosed Proxy is solicited by the Management of the Company. The shares represented by the form of proxy enclosed herewith will be voted and, where a choice with respect to any matter to be acted upon has been specified in the form of proxy, the shares shall, subject to Section 105 of The Securities Act, 1966 (Ontario), be voted in accordance with the specification so made. With respect to matters as to which a choice is not so specified, it is intended to vote the shares represented by the form of proxy in favour of each such matter. The form of proxy also confers discretionary authority with respect to amendments or variations to matters identified in the notice of meeting and other matters which may properly come before the meeting.

A shareholder giving a proxy in the form enclosed has the power to revoke it at any time before it is exercised.

A SHAREHOLDER HAS THE RIGHT TO APPOINT A PERSON TO REPRESENT HIM AT THE MEETING OTHER THAN THE PERSONS DESIGNATED IN THE FORM OF PROXY. TO EXERCISE THIS RIGHT, THE SHAREHOLDER MAY INSERT THE NAME OF THE DESIRED PERSON IN THE BLANK SPACE PROVIDED IN THE FORM OF THE PROXY AND STRIKE OUT THE NAMES OF THE MANAGEMENT NOMINEES OR MAY SUBMIT ANOTHER SIMILAR FORM OF PROXY.

Voting Shares and Principal Holders Thereof

There are presently issued and outstanding 2,192,435 common shares of the Company, the registered holders of which at the date of the meeting are entitled to attend and to vote thereat on the basis of one vote for each such share held.

All shareholders of record as of the time of the Annual and Special General Meeting or any adjournment or adjournments thereof are entitled either to attend and vote thereat in person any shares held by them or, provided a complete and executed form of proxy shall have been delivered to the Company within the time hereinbefore specified, to attend and vote thereat by proxy any shares held by them.

Palm Enterprises, 312 Fourth Avenue S.W., Calgary 1, Alberta, is the beneficial and recorded owner of 271,027 shares of the Company representing approximately 12.4% of the issued and outstanding shares of the Company. Palm Enterprises is a partnership owned in four equal parts by the following: T. B. Pickens, Jr., 1501 Taylor Street, Amarillo, Texas; J. B. Ashmun, 312 Fourth Avenue S.W., Calgary 1, Alberta; Henry D. Lindsley III, 4209 Arcady, Dallas, Texas; and Wales H. Madden, Jr., 700 West 9th Amarillo, Texas, four of the Directors of the Company.

John B. Ashmun, 1228 Prospect Avenue S.W., Calgary 3, Alberta, is the beneficial and recorded owner of 432,026 shares of the Company representing approximately 19.7% of its issued and outstanding shares, in addition to his beneficial interest in the shares of the Company as a partner of Palm Enterprises.

Election of Directors

The Board of Directors consists of 5 Directors, each of whom is elected annually to serve until the next Annual Meeting of Shareholders or, subject to the Company's By-laws, until his successor is elected or appointed. It is intended that the following persons, all of whom are presently Directors of the Company and have been since the dates indicated, will be nominated at the Meeting. The persons whose names are printed in as proxies in the enclosed form of proxy will vote all shares over which they have control for the election of management's nominees. Management does not contemplate that any of its nominees will be unable to serve as Directors but, if it should occur for any reason prior to the Meeting that any of such nominees are unable or unwilling to serve as such, it is intended that discretionary authority shall be exercised by the persons named in the enclosed form of proxy to vote the said proxy for the election of any other person or persons in place of any nominee or nominees unable or unwilling to serve.

<u>Name and Present Principal Occupation</u>	<u>Year First Became a Director</u>	<u>Number of Shares Beneficially Owned Directly or Indirectly as of March 6, 1971</u>
John B. Ashmun, President, Wainoco Oil and Chemicals Limited	1968	432,026
Robert F. Smith, Vice President Wainoco Oil and Chemicals Limited	1962*	63,001
T. B. Pickens, Jr., President Mesa Petroleum Company	1968	45,126
Wales H. Madden, Jr., Partner Selecman and Madden, Attorneys	1968	32,543
Henry D. Lindsley, III Lehman Bros.	1968	28,126

* Note: Mr. Smith was a Director during the years 1962 and 1963. In 1964, he resigned from the Board and was re-elected in 1967.

Remuneration of Management and Stock Options

During the financial year ended December 31, 1970, the aggregate direct remuneration paid or payable by the Company and its subsidiaries to the Directors and Senior Officers of the Company was \$142,818.

By agreements dated June 5, 1970, pursuant to the Employee Incentive Stock Option Plan the Company granted to Messrs. Wayne S. Tait, Frank W. Brown and Roger H. Giovanetto, employees of the Company, options on 2,500, 2,500 and 3,000 shares of the Company respectively for 5 year terms at a price of \$2.00 per share. These options may be exercised only as to 20% thereof in each of said 5 years. For the 30 day period preceding the date of the granting of the options, the price range for the shares of the Company on the Toronto Stock Exchange was \$2.00 and \$2.90.

By agreement, dated November 20, 1970, between the Company and Mr. Alan F. Griffith, an employee of the Company, Mr. Griffith subscribed for 5,000 shares of the Company at a price of \$3.80 per share (being the market price for said shares on November 5, 1970) for a total aggregate consideration of \$19,000.00 by delivering to the Company his non-interest bearing promissory note for that amount. The note provides for payment of not greater than 20% of the amount thereof per annum with payment in full by November 20, 1975.

By agreement, dated November 20, 1970, between the Company and Mr. Roger H. Giovanetto, an employee of the Company, Mr. Giovanetto surrendered his right to previously granted options under the Employee Incentive Stock Option Plan on 5,625 shares at \$1.45 per share and 3,000 shares at \$2.00 per share in consideration of the Company accepting his subscription for 5,625 shares at \$1.45 and 3,000 shares at \$2.00 per share, accompanied by two non-interest bearing promissory notes in favour of the Company totalling \$14,156.25. The first note in the amount of \$8,156.25 provides for payment of not greater than 33% of the principal amount by June 6, 1971 and for payment in full on or before June 6, 1973, while the second note in the amount of \$6,000 provides for payment of not more than 20% of the amount thereof per annum with payment in full by June 5, 1974.

Matters to be Acted Upon

It is the intention of the Management of the Company to place the following matters before shareholders for sanction and confirmation:

1. By-law No. 22, being a by-law relating to the indemnification of the directors and officers of the Company, which was enacted by the Directors on December 28, 1970. Your Directors have proposed this By-law in an effort to have the Company's By-laws conform to the applicable provisions of The Business Corporations Act, 1970. A copy of By-law No. 22 accompanies this Information Circular and reference is made thereto for further particulars.
2. A resolution previously passed by the Directors on February 18, 1971, authorizing an application to the Minister of Financial and Commercial Affairs for Articles of Amendment permitting shareholders' meetings to be held in the Province of Ontario or at any of the following cities outside of the Province of Ontario, namely, Calgary, Alberta; New York, New York; Denver, Colorado; Los Angeles or San Francisco, California; Dallas or Houston, Texas.

UNLESS OTHERWISE INSTRUCTED PROXIES RECEIVED PURSUANT TO THIS SOLICITATION WILL BE VOTED IN FAVOUR OF BY-LAW NO. 22 AND THE RESOLUTION RELATING TO THE LOCATION FOR THE HOLDING OF SHAREHOLDERS MEETINGS.

Appointment of Auditors

Management proposes to nominate Clarkson, Gordon & Co. as auditors of the Company to hold office until the next Annual Meeting of Shareholders, at a remuneration to be fixed by the Directors. Clarkson, Gordon & Co. were first appointed auditors of the Company on May 4, 1968.

UNLESS OTHERWISE INSTRUCTED, PROXIES RECEIVED PURSUANT TO THIS SOLICITATION WILL BE VOTED FOR THE APPOINTMENT OF CLARKSON, GORDON & CO. AS AUDITORS.

It is not the intention of Management of the Company to bring any other matters before the Meeting other than the matters referred to in the Notice of Meeting accompanying this Information Circular. It should be noted, however, that THE ENCLOSED FORM OF PROXY IS A DISCRETIONARY PROXY AND THE PERSONS NAMED THEREIN ARE AUTHORIZED TO VOTE IN ACCORDANCE WITH THEIR JUDGMENT ON ANY OTHER MATTERS WHICH MAY PROPERLY COME BEFORE THE MEETING.

BY ORDER OF THE BOARD OF DIRECTORS.

"Robert L. Doddridge"
Secretary-Treasurer

March 10, 1971.

WAINOCO OIL AND CHEMICALS LIMITED

BY-LAW NUMBER 22

A by-law relating to the indemnification of officers and directors of WAINOCO OIL AND CHEMICALS LIMITED, (hereinafter called the "Company").

BE IT ENACTED AND IT IS HEREBY ENACTED as a by-law of the Company as follows:

1. Every director and every officer of the Company and his heirs, executors, administrators and other legal personal representatives may from time to time and at all times be indemnified and saved harmless by the Company from and against:

- (a) any liability and all costs, charges and expenses that he sustains or incurs in respect of any action, suit or proceeding that is proposed or commenced against him for or in respect of anything done or permitted by him in respect of the execution of the duties of his office; and
- (b) all other costs, charges and expenses that he sustains or incurs in respect of the affairs of the Company;

provided that no director or officer of the Company shall be indemnified by it in respect of any liability, costs, charges or expenses that he sustains or incurs in or about any action, suit or other proceeding as a result of which he is adjudged to be in breach of any duty or responsibility imposed upon him under The Business Corporations Act, 1970 or under any other statute of Ontario unless, in such action brought against him in his capacity as director or officer, he has achieved complete or substantial success as defendant.

2. The Company may purchase and maintain such insurance for the benefit of its directors and officers as the board may from time to time determine, except insurance against a liability, cost, charge or expense of the director or officer incurred as a result of a contravention of Section 144 of The Business Corporations Act, 1970.

3. Clause 14 of By-law No. 20 of the by-laws of the Company passed by the directors on the 23rd day of August, 1967 is repealed and expunged therefrom from and after the coming into force of this By-law No. 22 provided that such repeal shall not affect the validity of any right, entitlement, obligation or liability acquired or incurred under the said clause prior to the effective date of its repeal.

4. This by-law shall come into force and take effect 24 hours prior to the commencement of the day on which The Business Corporations Act, 1970 comes into force.

ENACTED this 28th day of December, 1970.

"John B. Ashmun"
President

"R. L. Doddridge"
Secretary

WAINOCO OIL AND CHEMICALS LIMITED

SPECIAL RESOLUTION

BE AND IT IS HEREBY RESOLVED that the following resolution passed by the Directors at a meeting duly held and constituted on the 18th day of February, 1971, be and the same is hereby approved, ratified, sanctioned and confirmed so that same will become a Special Resolution of the Company, namely:

1. The Company be and it is hereby authorized to make application to the Minister of Financial and Commercial Affairs for Articles of Amendment so as to enable meetings of shareholders to be held at any place within the Province of Ontario and in addition thereto at any of the following cities, namely, Calgary, Alberta; New York, New York; Denver, Colorado; Los Angeles or San Francisco, California; Dallas or Houston, Texas.
2. The Directors and Officers of the Company be and they are hereby authorized and directed to do, sign and execute all things, deeds and documents necessary or desirable for the due carrying out of the foregoing.

WAINOCO OIL LTD. ANNUAL REPORT 1971



WAINOCO OIL LTD.

DIRECTORS

John B. Ashmun, Calgary, Alberta
Henry D. Lindsley III, Dallas, Texas
Wales H. Madden, Jr., Amarillo, Texas
T. B. Pickens, Jr., Amarillo, Texas
Robert F. Smith, Calgary, Alberta

OFFICERS

John B. Ashmun, President
Robert F. Smith, Vice-President
William A. Faubion, Vice-President
Robert L. Doddridge, Secretary-Treasurer

EXECUTIVE OFFICE

312 Fourth Avenue S.W.
Calgary, Alberta, T2P 0H7

U.S.A. OFFICE

1406 Bank of the Southwest Building
Houston, Texas, 77002

REGISTRAR AND TRANSFER AGENT

Montreal Trust Company, Toronto, Ontario

AUDITORS

Clarkson, Gordon & Co., Calgary, Alberta

SHARES TRADED

CANADA
Toronto Stock Exchange, Toronto, Ontario
U.S.A.
NASDAQ System "WOILF"

COVER PHOTO

*Cement sheathed pipe being prepared for laying across the Peace River
on Wainoco's Wilder gas pipeline, British Columbia.*

*Tank battery on
Wainoco Haynes lease, Alberta.*



Financial and Operating Highlights

	<u>1971</u>	<u>1970</u>	<u>1969</u>	<u>1968</u>	<u>1967</u>
FINANCIAL					
Revenues	\$8,719,319	7,351,415	5,643,322	3,401,790	3,008,863
Cash flow from Operations	\$1,594,010	1,445,922	1,123,017	218,301	142,962
Per Share	\$.52	.49	.45	.13	.11
Net income	\$ 906,255	882,815	715,343	176,218	106,233
Per Share	\$.30	.30	.28	.11	.08
Total assets	\$9,837,850	8,055,726	5,391,212	2,548,472	1,146,844
PRODUCTION					
Oil & condensate (bbls.)	310,686	288,425	220,976	29,586	22,891
Natural gas (Mcf.)	2,092,739	1,670,358	1,236,461	83,812	74,126
LAND					
Gross acres	2,753,510	3,096,272	2,131,810	1,022,191	268,206
Net acres	2,395,186	2,809,125	1,763,451	856,221	100,663

The above schedule has been restated for the years 1969 and 1970 to reflect the acquisition of Atapaz Petroleum, Inc.

Report to the Shareholders

A firm advance in Wainoco's growth was achieved in 1971 as a result of the expansion of its oil and gas operations. Exploration activity was increased through formation of a drilling fund three times the size of its 1970 predecessor. Substantial oil and gas reserves were added through the acquisition of the net assets of Atapaz Petroleum, Inc. of Houston, Texas, which included interests in 118 wells. Sales of petroleum and natural gas greatly exceeded those of prior years as a result of this acquisition, supplemented by the marketing of production from other Company leases previously developed.

In keeping pace with this growth, Wainoco made additions to its staff and opened an office in Houston, Texas from which all U.S. operations are to be managed. At a special meeting of shareholders held in September, an increase and change in the capitalization of the Company to 5,000,000 authorized shares without par value was voted by the shareholders. Also at this meeting, approval was given to the contraction of the Company name to Wainoco Oil Ltd.

Financial

Record earnings and revenues for the year were established by the Company, reflecting both higher operating levels and the acquisition of oil and gas properties from Atapaz. Figures for the year 1970

as given in the financial section of this report have been restated to include the operations of Atapaz. Net income for 1971 was \$906,255 or 30¢ per share as compared to \$882,815 or 30¢ per share restated for 1970. Gross revenues rose to \$8,719,319, or 14% above \$7,351,415 as restated for the previous year. Cash flow from operations of \$1,594,010, in 1971 compared with \$1,445,922 in the prior period.

Common shares issued during the year included 220,700 paid as a ten percent stock dividend and 620,000 exchanged for the assets of Atapaz. Total shares outstanding at year end were 3,052,835.

Oil and Gas Operations

Since the last annual report to shareholders Wainoco participated in the drilling of 48 wells of which 37 were exploratory and 11 were development. Exploratory drilling resulted in the completion of 10 gas wells and 1 oil well. Successful development completions consisted of 5 gas wells and 2 oil wells.

Wainoco 71 Company

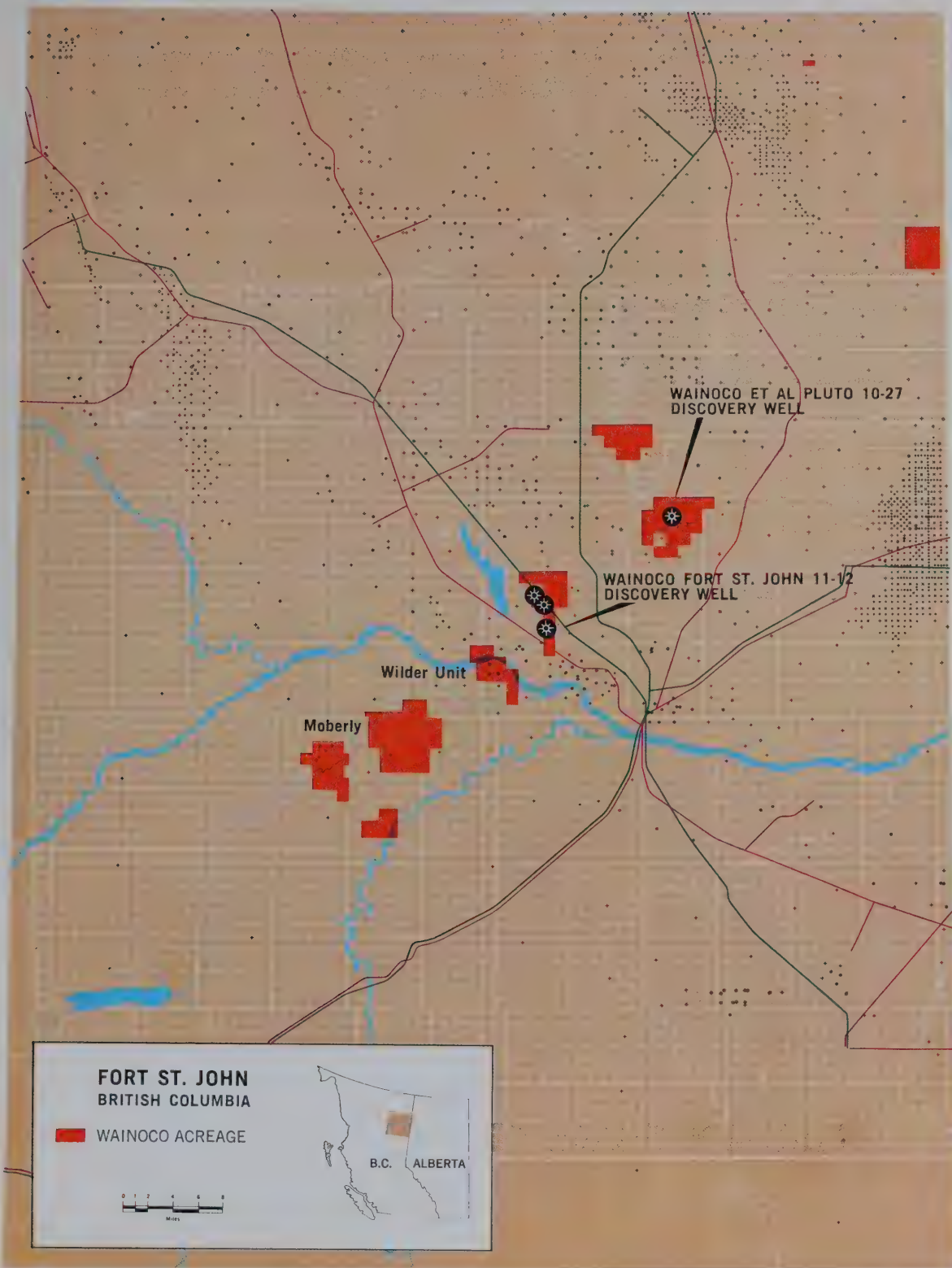
A majority of the year's drilling was done in association with Wainoco 71 Company, a limited partnership in which subscriptions were sold providing an exploration budget of \$3,150,000. This partnership, in which the Company owns a thirty percent interest, made six gas discoveries from eighteen exploratory prospects undertaken in Alberta, British Columbia and Montana.

In northeastern British Columbia, Wainoco Francana Pluto 10-27-85-17 W6 was completed as a gas discovery from the Belloy sand. A second well drilled to the northeast was nonproductive as the sand was tight. Further work is planned on the 13,000 acre block to determine the extent of porous sand development.

Near Ft. St. John, British Columbia, a well designated Wainoco Ft. St. John 11-12-84-19 W6 was completed from thirty net feet of Halfway gas sand on an 8,320 acre block of acreage owned by the partnership. Two other successful wells have been drilled on this prospect and additional development will be carried out later this



Flow testing on Wainoco Ft. St. John 11-12-84-19 W/6 discovery, British Columbia.

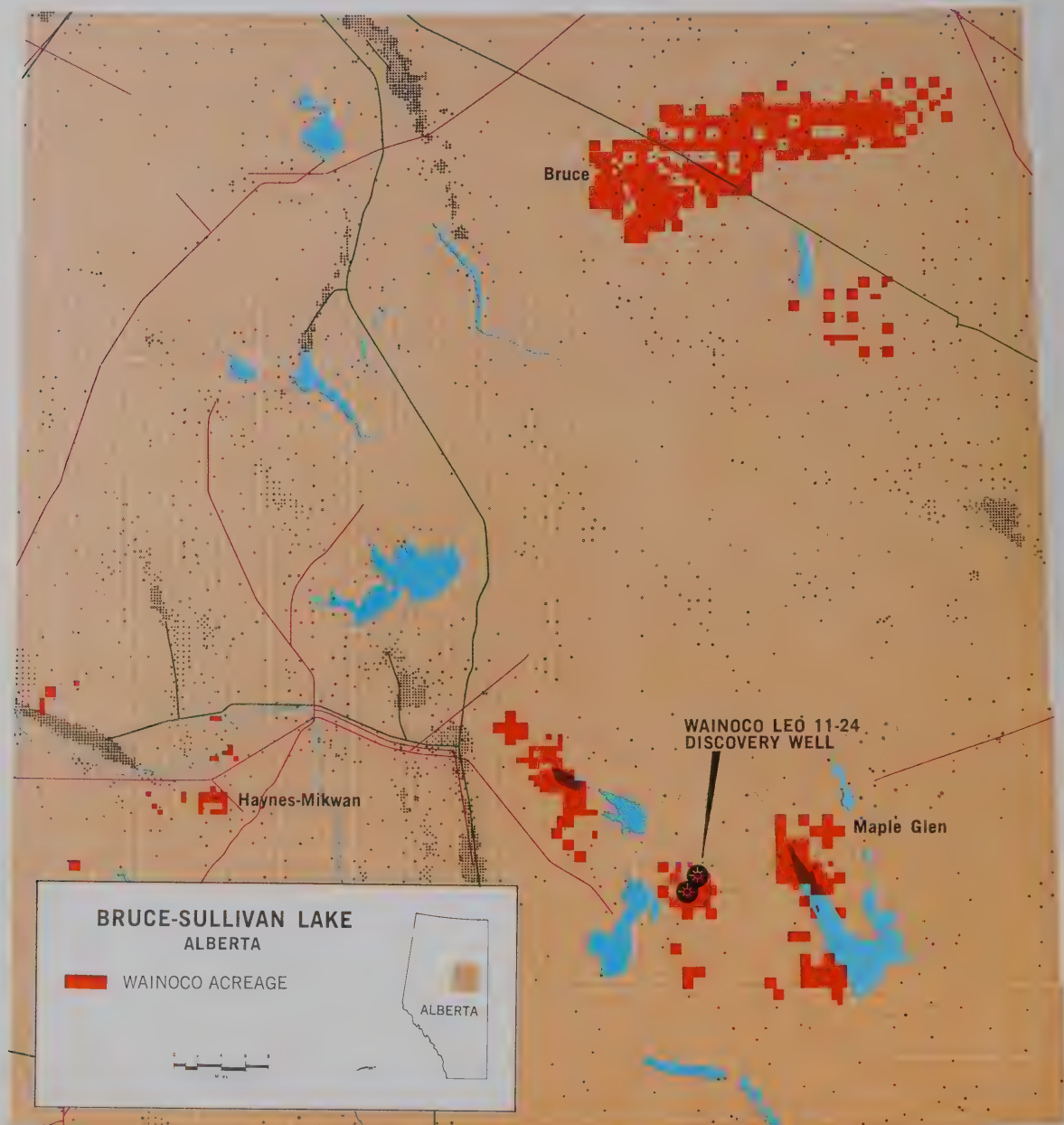


year. Tests of the Baldonnel and Belloy zones from these wells have yielded positive shows of hydrocarbons, and it is believed that these horizons are productive on this prospect.

In the Kyklo area of extreme northeastern British Columbia, the partnership completed a shallow gas discovery from a well which it had drilled to test the deeper Devonian Slave Point reef. Development around this interesting test will be conducted during next winter's drilling season on the large block of leases held by Wainoco and its partners.

A Cretaceous gas discovery was made by our Wainoco Leo 11-24-36-17 W4 well in Alberta, and a confirming well has also been completed. Additional drilling is planned to more fully define the potential of this prospect. The partnership owns a 100% interest in the discovery well and 1,440 acres plus a 60% interest in 7,520 acres adjoining it.

In the Jenner area of southeastern Alberta, a Cretaceous gas discovery, Wainoco Jenner 10-29-21-9 W4, was made on an 18,740 acre permit owned

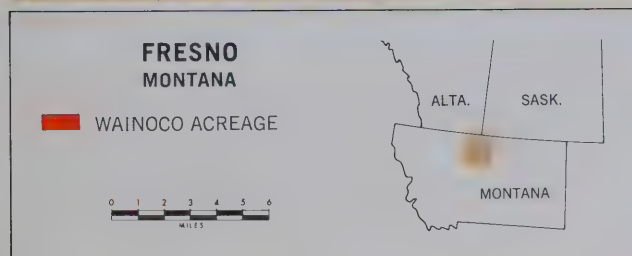
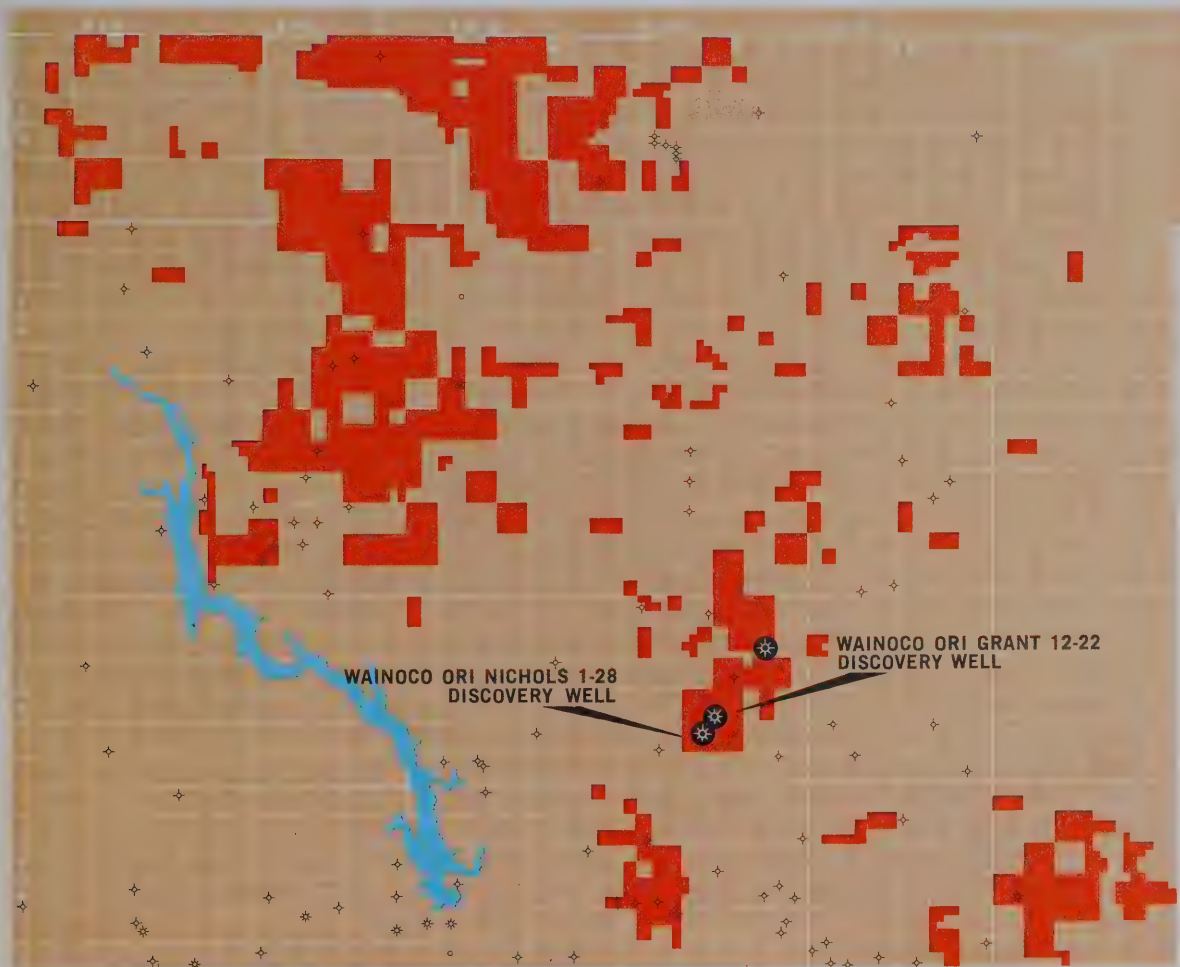


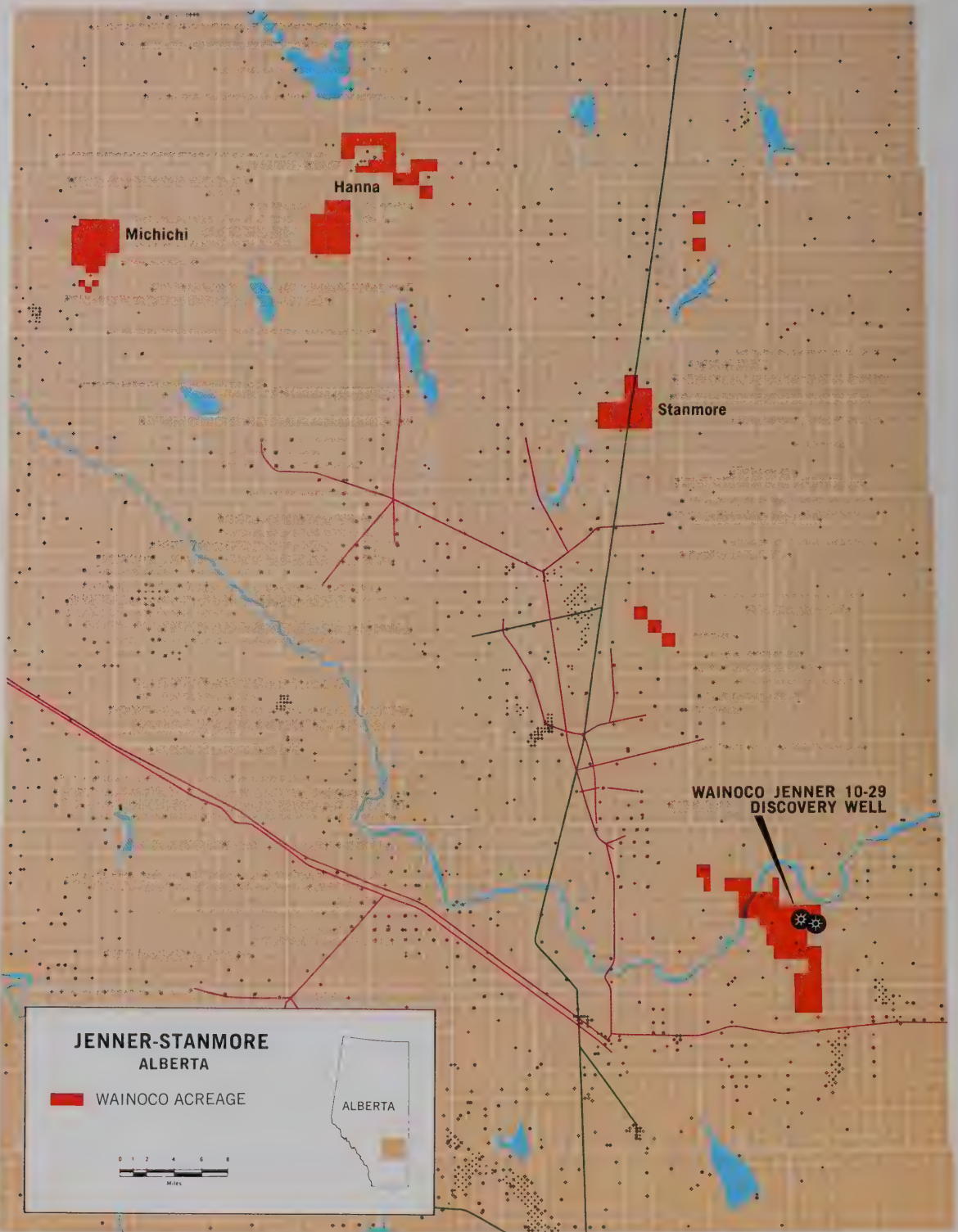
by the partnership. This well had two productive horizons, and was offset by a second well which tested gas from one of the zones. Additional locations appear potential on this prospect and the drilling of some of them will take place this summer.

North of Havre, Montana, the partnership conducted an extensive geological and geophysical program which was followed by the drilling of nine wells in the search for gas production from the Eagle sand. Three of these wells were completed, and two had absolute open flow potentials of 4 million

cubic feet per day each at depths of approximately 700 feet. There is a considerable amount of follow-up drilling to be done in this area where a fifty percent interest in some 90,000 acres was earned.

Preliminary estimates indicate that reserves of 60 billion cubic feet of gas have been proven by Wainoco 71 Company, and that development drilling could result in doubling these reserves. It is expected that a market for gas from at least two of these prospects will be available by the end of 1972.







United States

Wainoco, Inc., the Company's wholly owned U.S. subsidiary, participated in drilling operations in Louisiana, Texas and New Mexico late last year. One of two exploratory wells in which this Company has a 25% interest was completed from the Strawn formation flowing at the rate of 185 barrels per day. The discovery well is located in Gaines County, Texas on a lease block comprised of 2,340 acres. Three of four development wells were also productive as a result of these operations.

Offshore Permits

The Company's block of 1,878,954 acres of Federal oil and gas permits lying offshore Labrador is being maintained as development of the interesting play off Canada's east coast continues to become more active. Similarly, permits in the Beaufort Sea comprising 245,677 acres are being held as exploration in this frontier area also expands. A marine seismograph program covering Federal oil and gas permits held by the Company in Hudson Bay was conducted during the summer. Following studies of the data received, it was concluded that the permits held little promise of production and they have been surrendered.



Production

The construction by the Company of a gathering and transmission pipeline from the Wilder Gas Field which crossed the Peace River to connect with a major transmission line southwest of Fort St. John, British Columbia was completed last fall. Gas sales commenced in October with an average contract volume of 6,750 MCF per day. Wainoco's share of this production is 21.9%, reducing to 14.7% following payout of the wells.

In the Bruce field of Alberta, payment against future daily delivery of 20 million cubic feet of gas commenced on January 1, 1972. A gas unit is being formed for the field, in which Wainoco's interest will be approximately 5%. Gas deliveries are expected to commence in September following construction of unit facilities.

The current daily producing rate of the Company is 1,063 barrels of oil and condensate, in addition to 6,287 MCF of gas. Total proven and probable reserves as evaluated by the Company are 1,429,000 barrels of oil and 38,891,000 MCF of gas as of December 31, 1971.

Drilling in Kyklo area of British Columbia.



Drilling at sunrise on Wainoco Ft. St. John 6-24-84-19 W/6, British Columbia.

Mining

A mineral exploration program was engaged in last summer over an area of northwestern British Columbia near Dease Lake. Geological and geochemical surveys led to the staking of claim groups on which further evaluation work will be done this year. Claims were also staked west of Minto in the Yukon Territory, near promising showings of copper. Examination of these claims will be done by a field party this summer.

Chemical and Transportation

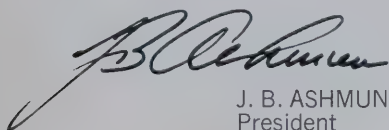
Revenues and earnings from chemical sales and services of our three chemical divisions were slightly higher than those in 1970. The distribution of chemicals by Travis Chemicals and Travchem Services is directly related to demands of the gas processing and oil and gas producing industries. Forecasts of growth for petroleum and natural gas production in western Canada assure continuance of the need for the chemicals and services supplied by these divisions. Both of them have demonstrated the ability to improve their business volumes in these highly competitive fields.

The volume of vegetation control services performed by the Edmonton branch of the Molsberry division was greater than that in 1970. Estimates for this year indicate that requirements of the utility and rail companies for this work will increase. Additions to equipment utilized in tree and brush trimming as well as the application of chemicals have been made to meet new business. The reorganization and transfer of Molsberry's rail operations to Edmonton has served to improve the efficiency of this segment of the division.

The trucking division produced revenues higher than those of the previous year; however, a loss in net income was incurred. The diversification of sales efforts and the adoption of more strict cost controls have been effected to improve the profit margin of this operation.

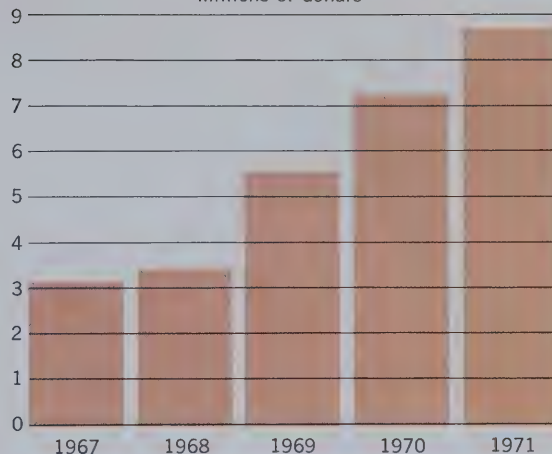
Development of Wainoco during 1971 follows the course set by your management four years ago in the search for and development of hydrocarbon reserves. Supported by increasing petroleum revenues and steady growth of its chemical divisions, progress in this pursuit is viewed with assurance for the present year.

On behalf of the Board

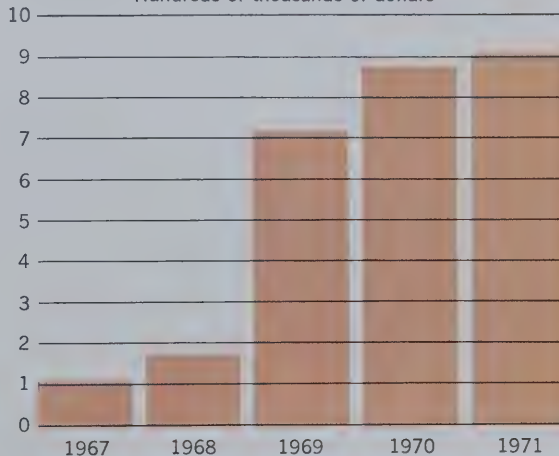

J. B. ASHMUN
President

April 10, 1972

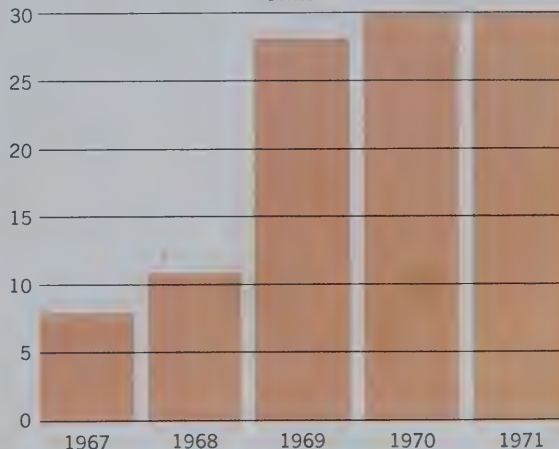
REVENUE
Millions of dollars



NET INCOME
Hundreds of thousands of dollars



NET INCOME PER SHARE
Cents



WAINOCO OIL LTD. and subsidiaries

Consolidated Balance Sheet

December 31, 1971 and 1970

ASSETS

	1971	1970 (Restated — Note 3)
CURRENT		
Cash and short term deposits	\$ 222,496	\$ 281,895
Accounts receivable		
Trade	1,578,384	1,166,247
Joint venture	1,470,783	1,015,014
Inventory at the lower of cost or net realizable value	474,101	415,030
Prepaid expenses and deposits	73,022	44,268
Total current assets	<u>3,818,786</u>	<u>2,922,454</u>
FIXED — AT COST		
Land	11,561	11,561
Buildings, equipment and fixtures	1,185,476	806,355
Oil and gas properties and equipment	6,054,557	4,289,560
Exploratory, general and administrative expenses deferred — net (Note 2)	—	648,750
	<u>7,251,594</u>	<u>5,756,226</u>
Accumulated depreciation	861,888	587,418
Accumulated depletion	993,819	606,183
	<u>1,855,707</u>	<u>1,193,601</u>
	<u>5,395,887</u>	<u>4,562,625</u>
OTHER		
Goodwill — at cost	239,350	239,350
Investments — at cost	68,500	74,167
Mortgages and notes receivable (including amounts from officers and a director of \$96,250 in 1971; \$56,250 in 1970) (Note 5)	315,327	257,130
	<u>623,177</u>	<u>570,647</u>
	<u>\$9,837,850</u>	<u>\$8,055,726</u>

On behalf of the Board:

JOHN B. ASHMUN, Director.

ROBERT F. SMITH, Director.

LIABILITIES

	1971	1970 (Restated — Note 3)
CURRENT		
Bank indebtedness (against which accounts receivable have been pledged as collateral)	\$1,745,741	\$ 663,868
Accounts payable	1,432,378	1,786,926
Current maturities of long term bank loans	260,000	200,000
Total current liabilities	<u>3,438,119</u>	<u>2,650,794</u>
 LONG TERM BANK LOANS		
Parent — payable \$5,000 monthly, secured by certain equipment . .	275,000	—
Subsidiary — payable \$200,000 (U.S.) annually, secured by certain oil and gas properties	540,000	740,000
	<u>815,000</u>	<u>740,000</u>
Less current maturities	260,000	200,000
	<u>555,000</u>	<u>540,000</u>
 SHAREHOLDERS' EQUITY		
Share capital (Note 5)		
Authorized		
5,000,000 common shares without par value		
Issued		
3,052,835 shares (1970 — 2,192,435 shares)	1,121,728	1,056,008
Contributed surplus	2,925,163	2,034,539
Retained earnings since January 1, 1968 (Note 6)	1,797,840	1,774,385
	<u>5,844,731</u>	<u>4,864,932</u>
	<u>\$9,837,850</u>	<u>\$8,055,726</u>

(See accompanying notes)

WAINOCO OIL LTD. and subsidiaries

Consolidated Statement of Income Years Ended December 31, 1971 and 1970

	1971	1970 (Restated — Note 3)
Revenue		
Oil and gas	\$1,622,259	\$1,096,929
Chemical	6,247,336	5,771,415
Transportation	849,724	483,071
	<u>8,719,319</u>	<u>7,351,415</u>
Expenses		
Cost of sales and operating expenses	6,012,041	5,150,194
Selling and administrative	1,064,112	697,486
Interest on long term debt	49,156	57,813
Depreciation	308,031	254,687
Depletion	379,724	308,420
	<u>7,813,064</u>	<u>6,468,600</u>
Net income for the year (Notes 2 and 4)	<u>\$ 906,255</u>	<u>\$ 882,815</u>
Net income per share (Note 4)	<u>\$.30</u>	<u>\$.30</u>

Consolidated Statement of Retained Earnings Years Ended December 31, 1971 and 1970

Balance December 31, 1969 as previously reported		\$ 614,908
Retained earnings of Atapaz Petroleum, Inc. at January 1, 1970 (Note 3)		<u>276,662</u>
Balance at beginning of year as restated	\$1,774,385	891,570
Net income for the year	906,255	882,815
	<u>2,680,640</u>	<u>1,774,385</u>
Less stock dividend declared (Note 5)	882,800	—
Balance at end of year	<u>\$1,797,840</u>	<u>\$1,774,385</u>

Consolidated Statement of Contributed Surplus Years Ended December 31, 1971 and 1970

Balance at December 31, 1969 as previously reported		\$1,560,300
Contributed surplus of Atapaz Petroleum, Inc. at January 1, 1970 (Note 3)		<u>385,054</u>
Balance at beginning of year as restated	\$2,034,539	1,945,354
Add premium on shares issued (1970 includes \$45,185 of Atapaz Petroleum, Inc.) (Note 5)	890,624	89,185
Balance at end of year	<u>\$2,925,163</u>	<u>\$2,034,539</u>

(See accompanying notes)

WAINOCO OIL LTD. and subsidiaries

Consolidated Statement of Source and Application of Funds Years Ended December 31, 1971 and 1970

	1971	1970 (Restated — Note 3)
Source of funds		
Operations		
Net income for the year	\$ 906,255	\$ 882,815
Add depreciation and depletion which did not involve an outlay of funds	687,755	563,107
	<u>1,594,010</u>	<u>1,445,922</u>
Disposal of oil and gas properties and equipment	94,666	—
Disposal of buildings, equipment and fixtures	26,547	62,829
Issue of share capital		
For cash and notes	73,543	45,750
For properties	—	191,019
Long term borrowing	300,000	—
	<u>2,088,766</u>	<u>1,745,520</u>
Application of funds		
Additions to oil and gas properties and equipment	1,198,516	1,447,635
Additions to buildings, equipment and fixtures	443,713	349,385
Exploratory, general and administrative expenses less non-cash items (Note 2)	—	282,480
Reduction of long term debt	285,000	200,000
Other	52,530	42,895
	<u>1,979,759</u>	<u>2,322,395</u>
Increase (decrease) in working capital	109,007	(576,875)
Working capital at beginning of year	271,660	848,535
Working capital at end of year	<u>\$ 380,667</u>	<u>\$ 271,660</u>

(See accompanying notes)

Auditors' Report

To the Shareholders of Wainoco Oil Ltd.

We have examined the consolidated balance sheet of Wainoco Oil Ltd. (formerly Wainoco Oil and Chemicals Limited) and subsidiaries as at December 31, 1971 and the consolidated statements of income, retained earnings, contributed surplus and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who have examined the financial statements of Atapaz Petroleum, Inc. (see Note 3).

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting for oil and gas operations explained in Note 2.

Calgary, Canada.
March 15, 1972.

CLARKSON, GORDON & CO.,
Chartered Accountants.

WAINOCO OIL LTD. and subsidiaries

Notes to Consolidated Financial Statements December 31, 1971

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Wainoco Oil Ltd. and subsidiaries, all of which are wholly-owned. The accounts of a United States subsidiary have been translated to Canadian dollars on the basis that \$1 U.S. equals \$1 Canadian.

2. ACCOUNTING FOR OIL AND GAS OPERATIONS

Prior to 1971 the Company and its subsidiaries followed a practice of capitalizing all expenses in connection with their oil and gas operations, net of related revenue received, pending the development of oil and gas properties to a production stage.

During 1971, management determined that development of oil and gas properties had progressed sufficiently to discontinue development stage accounting and to record income and expenses related to such properties in accordance with accounting principles applicable to operating companies. Accordingly, commencing January 1, 1971, the companies adopted the full cost method of accounting whereby all costs related to the acquisition of, exploration for and development of oil and gas properties, whether productive or non-productive, are capitalized and depleted on a composite unit of production method based on total estimated reserves of oil and gas. The accumulated exploratory, general and administrative expenses deferred at December 31, 1970 of \$648,750 were transferred to oil and gas properties and equipment on January 1, 1971.

As a result of including oil and gas operations in income in 1971, net income for that year (before including the operations of Atapaz — see Note 3) has been increased by \$63,776 (\$.02 per share).

3. ACQUISITION OF ATAPAZ PETROLEUM, INC.

During the year the Company acquired substantially all of the net assets of Atapaz Petroleum, Inc. in exchange for 620,000 common shares of

the Company which had a fair value of \$3,100,000. On this basis, the 2,430,835 common shares of the Company outstanding immediately prior to the acquisition had a fair value of \$12,200,000, and represented 80% of the common shares outstanding immediately after the acquisition. The transaction was closed on December 31, 1971.

The acquisition was accounted for as a pooling of interests whereby the assets, liabilities, contributed surplus and retained earnings of Atapaz were brought into the accounts of the Company at their book values as follows:

Assets	
Current	\$ 429,489
Oil and gas properties and equipment at cost less accumulated depreciation and depletion	2,115,346
Organization expenses	6,039
	<u>\$2,550,874</u>
Liabilities	
Current	\$ 273,160
Long term bank loan	340,000
Contributed surplus	\$434,239
Retained earnings	995,576
Capital, representing the amount attributed to Wainoco's common shares issued on the acquisition	507,899
	<u>1,937,714</u>
	<u>\$2,550,874</u>

As a result of accounting for the acquisition as a pooling of interests, the income of the Company as previously reported for 1970 has been restated. The operations of Atapaz which have been included in the consolidated statement of income for 1971 and 1970 are as follows:

	<u>1971</u>	<u>1970</u>
Oil and gas revenue	\$1,211,317	\$1,096,929
Income before depreciation and depletion	911,905	759,165
Depreciation and depletion	478,114	458,617
Net income for the year	<u>\$ 433,791</u>	<u>\$ 300,548</u>
Net income per share	<u>\$.14</u>	<u>\$.10</u>

The 1970 consolidated balance sheet and consolidated statement of source and application of funds have also been restated to include the accounts of Atapaz at December 31, 1970 and for the year then ended.

4. INCOME TAXES

For Canadian income tax purposes, the companies are entitled to claim drilling, exploration and lease acquisition costs and capital cost allowances (depreciation) in amounts which may exceed the related depletion and depreciation provisions reflected in the accounts. As a result no income taxes are payable in respect of income reported for the 1971 and 1970 fiscal years.

The companies do not consider that it is appropriate to provide for income taxes deferred as a result of claims for drilling, exploration and lease acquisition costs. While this view conforms with that of many other companies in the oil and gas industry in Canada, it differs from the tax allocation basis of accounting recommended by The Canadian Institute of Chartered Accountants whereby income taxes should be provided on the basis of income reported in the accounts. At the respective balance sheet dates, the companies' undepreciated capital cost exceeded the related net book value of their fixed assets.

If the tax allocation basis of accounting had been followed for all timing differences between taxable income and reported income, deferred income taxes of \$364,000 (\$.12 per share) would have been provided in 1971 (\$381,000; \$.13 per share in 1970) and net income for the year reduced accordingly. The accumulated deferred income tax provisions, net of recoveries, for current and prior years would have amounted to \$439,000 at December 31, 1971.

Accumulated drilling, exploration and lease acquisition costs of \$1,410,000 and undepreciated capital cost of \$2,518,000 at December 31, 1971 remain to be carried forward and applied against future Canadian and U.S. income.

5. SHARE CAPITAL

During the year the Company issued 220,700 common shares valued at \$882,800 (market value at date of declaration) in payment of a stock dividend declared on the basis of one common share for each ten shares outstanding. In addition, 19,700 shares were issued to officers and employees upon exercise of stock options at prices ranging from \$2.00 to \$4.00 per share for a total consideration of \$13,543 cash and \$60,000 of non-interest bearing notes due in 1976, against which the allotted shares are pledged as security. Of the total consideration, \$65,720 was credited to share capital and the balance, \$890,624, to contributed surplus. A further 620,000 shares were issued on Decem-

ber 31, 1971 in the acquisition of the net assets of Atapaz Petroleum, Inc. (see Note 3).

On October 13, 1971 the Company amended its articles of incorporation by (1) changing its name to Wainoco Oil Ltd., (2) changing the authorized share capital of the Company from 3,000,000 shares with a par value of \$.25 per share into 3,000,000 shares without par value, and (3) increasing the authorized capital of the Company by creating 2,000,000 additional shares without par value.

During the year 50,000 shares were reserved for the granting of future options. Options were granted to officers to purchase 11,500 shares at prices ranging from \$4.00 to \$4.67 per share and to employees to purchase 18,000 shares at prices ranging from \$3.40 to \$4.67 per share. Options to purchase 4,000 shares were cancelled during the year.

Shares of the Company's capital stock were reserved at December 31, 1971 as follows:

For options granted to purchase shares at prices ranging from \$2.00 to \$4.67 per share, exercisable at various dates to December 16, 1976:	
to an officer	4,300
to employees	25,000
For the granting of future options to officers and employees	
	60,000
	<u>89,300</u>

6. RETAINED EARNINGS

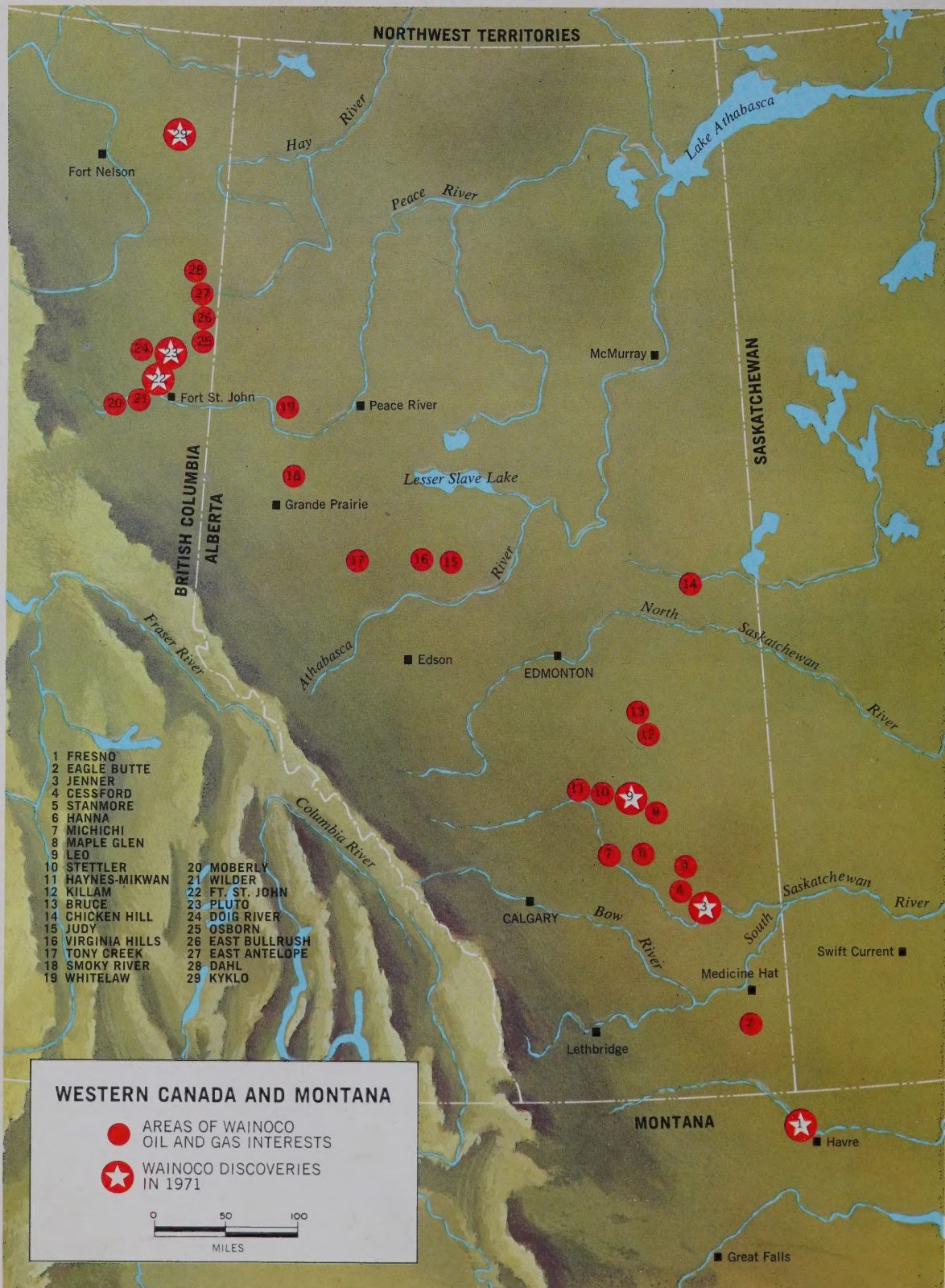
During 1968 an appropriation of \$2,543,119 was made from contributed surplus to retained earnings eliminating the balance of deficit at the beginning of that year. Accordingly, retained earnings are accumulated from January 1, 1968.

7. STATUTORY INFORMATION

The total remuneration paid to the directors and senior officers of the Company during 1971 amounted to \$164,606. This includes remuneration paid to two-employees who are not officers of the Company.

8. DRILLING FUNDS

The Company is the general partner in two drilling funds; Wainoco 70 Company and Wainoco 71 Company. Its investment therein consists of certain exploration and development expenditures which are included in oil and gas properties and equipment in the accounts. Under the Articles of Limited Partnership, Wainoco may be called upon by the limited partners to acquire their interests after January 1, 1972 and 1973 respectively, at the then fair market value.



WAINOCO OIL LTD.

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